

**Democracy Fund, Inc.**  
**Financial Statements**  
**December 31, 2016 and 2015**



## Report of Independent Auditors

To the Board of Directors of Democracy Fund, Inc.

We have audited the accompanying financial statements of Democracy Fund, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and of cash flows for the years then ended.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Democracy Fund, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a dotted line.

San Francisco, California  
June 27, 2017

**Democracy Fund, Inc.**  
**Statements of Financial Position**  
**December 31, 2016 and December 31, 2015**

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	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 49,770,251	\$ 33,069,430
Restricted cash	101,172	20,165
Prepaid expenses and other assets	197,273	83,093
Fixed assets, net	478,894	-
Total assets	<u>\$ 50,547,590</u>	<u>\$ 33,172,688</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 1,295,194	\$ 640,745
Grants payable	1,126,000	2,680,645
Federal excise tax payable	341,783	338,759
Total liabilities	<u>2,762,977</u>	<u>3,660,149</u>
Unrestricted net assets	<u>47,784,613</u>	<u>29,512,539</u>
Total liabilities and net assets	<u>\$ 50,547,590</u>	<u>\$ 33,172,688</u>

The accompanying notes are an integral part of these financial statements.

**Democracy Fund, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended December 31, 2016 and December 31, 2015**

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	2016	2015
<b>Revenues and gains</b>		
Contributions of marketable securities	\$ 39,302,498	\$ 23,173,200
Contributions in-kind	496,670	626,198
Interest and dividends	7,036	3,440
Change in unrealized gains on investments	-	179,850
Total revenues and gains	39,806,204	23,982,688
<b>Expenses and losses</b>		
Net realized losses on investments	654,371	868,211
Grant expenses	13,244,120	11,568,791
Program expenses	4,083,577	2,520,913
Administrative expenses	3,189,037	1,906,653
Federal excise tax expense	363,025	447,849
Total expenses and losses	21,534,130	17,312,417
Increase in unrestricted net assets	18,272,074	6,670,271
Unrestricted net assets at beginning of year	29,512,539	22,842,268
Unrestricted net assets at end of year	\$ 47,784,613	\$ 29,512,539

The accompanying notes are an integral part of these financial statements.

**Democracy Fund, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and December 31, 2015**

	2016	2015
<b>Cash flows from operating activities</b>		
Increase in unrestricted net assets	\$ 18,272,074	\$ 6,670,271
Adjustments to reconcile increase in unrestricted net assets in cash and cash equivalents used in/provided by operating activities		
Contributions of marketable securities	(39,302,498)	(23,173,200)
Net unrealized (gain) loss on investments	-	(179,850)
Net realized loss on investments	654,371	868,211
Proceeds from sale of investments	38,648,127	41,004,439
Depreciation and amortization	24,184	-
Changes in assets and liabilities		
Change in restricted cash	(81,007)	(165)
Prepaid expenses and other assets	(114,179)	(65,139)
Accounts payable and accrued expenses	654,448	497,873
Grants payable	(1,554,645)	1,243,145
Federal excise tax payable	3,024	228,241
Deferred federal excise taxes	-	(370,392)
Net cash provided by operating activities	<u>17,203,899</u>	<u>26,723,434</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	<u>(503,078)</u>	-
Net cash used in investing activities	<u>(503,078)</u>	-
Net increase in cash and cash equivalents	<u>16,700,821</u>	<u>26,723,434</u>
<b>Cash and cash equivalents</b>		
Cash and cash equivalents at beginning of year	<u>33,069,430</u>	<u>6,345,996</u>
Cash and cash equivalents at end of year	<u>\$ 49,770,251</u>	<u>\$ 33,069,430</u>
<b>Supplemental schedule of noncash activities</b>		
Contributions of marketable securities	\$ 39,302,498	\$ 23,173,200
Contributions in-kind	\$ 496,670	\$ 626,198
<b>Supplemental disclosures of cash flow information</b>		
Federal excise taxes paid	\$ 360,000	\$ 590,000

The accompanying notes are an integral part of these financial statements.

# Democracy Fund, Inc.

## Notes to Financial Statements

### December 31, 2016 and December 31, 2015

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#### 1. Organization

Democracy Fund, Inc. ("DF") is a charitable, nonstock corporation formed on February 11, 2014 in the state of Delaware. DF is organized and operated exclusively for exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code ("Code"). DF has received a determination letter from the Internal Revenue Service stating it is exempt under 501(c)(3) of the Code and specifically that it is classified as a Section 509(a) Private Foundation. Pierre Omidyar, Michael Mohr, Pat Christen, Sarah Steven and Will Fitzpatrick serve on the Board of Directors with Joseph Goldman serving as president. DF was formed in order to support charitable and educational activities in service of creating a stronger democracy. DF invests in organizations working to ensure that our political system is responsive to the public and able to meet the greatest challenges facing our nation.

#### 2. Summary of Significant Accounting Policies

##### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP") applicable to non-profit organizations.

Revenues are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

##### **Unrestricted Net Assets**

Unrestricted net assets represent resources that are not subject to donor-imposed restrictions and are available to support DF's activities.

##### **Uses of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Cash and Cash Equivalents**

Cash and cash equivalents consist of short-term, highly liquid investments purchased with a remaining maturity of three months or less. At times, cash balances may exceed federally insured limits.

##### **Restricted Cash**

Restricted cash consists of a collateral account for a corporate credit card program.

##### **Fair value of financial instruments**

In accordance with the authoritative guidance on fair value measurements and disclosures under US GAAP, DF discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

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**Notes to Financial Statements**  
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Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that DF has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by management. Management considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities and certain money market securities. Management does not adjust the quoted price for such instruments, even in situations where DF holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. DF had no level 2 investments as of December 31, 2016 and 2015.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by management in the absence of market information. Assumptions used by the management due to the lack of observable inputs may significantly impact the resulting fair value and therefore DF's results of operations. DF had no level 3 investments as of December 31, 2016 and 2015.

The authoritative guidance on disclosures about fair value of financial instruments requires the disclosure of the estimated fair value of financial instruments including those financial instruments for which we did not elect the fair value option.

The carrying values of the following DF's financial instruments approximate fair value based on the short maturity of these items: cash and cash equivalents, restricted cash, accounts payables and accrued expenses.

**Fixed Assets**

Fixed assets are recorded at cost at the date of purchase. Depreciation and amortization is recorded on assets in service using the straight-line method over the estimated useful lives of the assets, as follows:

Equipment	5 years
Furniture and fixtures	7 years
Leasehold Improvements	Shorter of the lease term or estimated useful life

# Democracy Fund, Inc.

## Notes to Financial Statements

### December 31, 2016 and December 31, 2015

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#### **Investment Income**

Dividend income is recognized on the ex-dividend date. Interest income is recognized on the accrual basis.

#### **Contributions**

Contributions are recognized as revenue at fair value in the period irrevocably pledged or received. Contributions of stock are valued at the average of the high and low price on the date transferred.

DF has been funded through contributions received from The Pierre M. Omidyar Trust (the "Trust"), a related party. To date, such contributions have been unrestricted.

#### **Grants**

Grants expense consists of unconditional grants. Unconditional grants are expensed as of the effective date of the grant agreement. Certain grants may be subject to the grantee fulfilling specific conditions. Such conditional grants are considered commitments and are not recorded as expense until the conditions of the grant are met.

#### **Functional Expense Allocations**

Expenses are allocated between program expenses and administration expenses based on the function that benefited from the incurred expenses and estimates made by management.

#### **Income Taxes**

DF, as a qualified private foundation, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and contributions to it may be deductible by donors for federal and state income tax purposes.

#### **Recent Accounting Pronouncement**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02 - *Leases* (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors).

The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the financial statements as DF has certain operating lease arrangements for which it is the lessee.

ASC 842 supersedes the previous leases standard, ASC 840 *Leases*. For private companies, the standard is effective for fiscal years beginning on or after December 15, 2019, with early adoption permitted. DF is in the process of evaluating the impact of this new guidance on its financial statements.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements for Not-for Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows.



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The amendments in the standard are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application is permitted. DF is in the process of evaluating the impact of this new guidance on its financial statements.

**3. Fair value of investments**

As of December 31, 2016 and 2015 all cash and cash equivalents and restricted cash were classified as level 1 within the valuation hierarchy.

**4. Fixed Assets**

Fixed assets at December 31, 2016 consisted of the following:

	<b>2016</b>
Equipment	\$ 98,085
Furniture and fixtures	262,013
Leasehold Improvements	142,980
	<u>503,078</u>
Less: Accumulated depreciation and amortization	<u>(24,184)</u>
Fixed assets, net	<u>\$ 478,894</u>

Depreciation and amortization expense of fixed assets during the year ended December 31, 2016 was \$24,184.

**5. Federal Excise Tax**

DF is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains on donated securities based on tax cost basis as defined in the Code. The expense for federal excise tax is as follows:

	<b>2016</b>	<b>2015</b>
Current provision	\$ 363,025	\$ 818,241
Deferred (benefit) provision	-	<u>(370,392)</u>
Federal excise tax expense	<u>\$ 363,025</u>	<u>\$ 447,849</u>

DF recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, DF measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. DF may recognize interest and, if applicable, penalties for any uncertain tax positions. No interest or penalties were accrued or recorded during the period ended December 31, 2016 and 2015. DF does not anticipate any significant increase or decrease to unrecognized tax benefits during the next twelve months.

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**6. Related Party Transactions**

During the years ended December 31, 2016 and 2015, financial manager fees of \$170,000 and \$137,500, recruiting fees of \$5,000 and \$22,300, legal fees of \$33,733 and \$90,000, rent expenses of \$181,235 and \$214,926, and other expenses of \$106,702 and \$161,472 were contributed by affiliates on behalf of DF. They were accounted for under "Contributions in-kind" in the Statements of Activities and Changes in Net Assets. In addition, all contributions of cash and marketable securities were contributed by affiliates for the benefit of DF.

**7. Grants**

As of December 31, 2016 and 2015, grant expense was as follows:

	<b>2016</b>	<b>2015</b>
Grant payments	\$ 14,798,765	\$ 10,325,646
Less: committed in the prior year on unconditional grants and paid	(2,680,645)	(1,437,500)
Committed in the current year on unconditional grants	<u>1,126,000</u>	<u>2,680,645</u>
Grant expense	<u>\$ 13,244,120</u>	<u>\$ 11,568,791</u>

As of December 31, 2016 and 2015, DF had total unfunded commitments of \$5,515,250 and \$6,708,750, respectively, related to conditional grants.

As of December 31, 2016, DF had \$1,126,000 of payables related to unconditional grants due in 2017. As of December 31, 2015, DF had \$2,680,645 of payables related to unconditional grants due in 2016.

**8. Commitments**

As of December 31, 2016, DF had a total of \$9,613,842 in obligations under operating leases, consisting of a real estate lease. Rental expense related to the lease was \$309,833 for the year ended December 31, 2016.

The minimum rental payments applicable to DF's lease are as follows:

<b>Years Ended</b>	<b>Operating Leases</b>
2017	\$ 610,295
2018	660,413
2019	678,578
2020	697,247
Thereafter	<u>6,967,309</u>
Total minimum lease payments	<u>\$ 9,613,842</u>

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**9. Subsequent Events**

Management has performed an evaluation of subsequent events through June 27, 2017, which is the date DF's financial statements were available to be issued and has concluded that there were no significant subsequent events relevant for financial statements disclosure.